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A THIRD WORLD STRATEGY

by Thomas Ehrlich and Catherine Gwin

On October 22 and October 23, 1981, President Reagan and the leaders of 22 major developed and developing nations will meet in Cancún, Mexico. Proposed initially by the Brandt Commission, this North-South summit meeting offers America's new president a chance to exercise constructive leadership in shaping cooperative relations on a range of issues of major importance to the United States as well as the rest of the world. To do so, the Reagan administration must first design its own U.S. program of economic cooperation with Third World nations that responds to pressing international development problems and has the support of the American people. This program is needed not as an agenda for summit discussions, but as the framework for U.S. leadership in those discussions.

So far, the Reagan administration has offered little positive along these lines. Instead, in its first months in office, the administration has made plain that it regards U.S. relations with developing countries as important primarily to check the spread of Soviet influence. The administration, therefore, has asked Congress to increase security assistance while reducing development assistance. It is moving, as Secretary of State Alexander Haig, Jr. testified, "toward a greater emphasis on bilateral rather than multilateral assistance." It will give special attention to those regimes that most loudly proclaim their pro-American allegiance, regardless of their commitment to equitable development in their own countries. This approach is designed to secure U.S. interests by concentrating on short-term political gains viewed

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mainly through an East-West prism.

This is a wrong-headed strategy. It will lead to a reactive foreign policy in which American adversaries—not clear calculations of U.S. interests in the Third World—determine U.S. priorities. It underestimates the fierce determination of developing nations to be independent. Moreover, the short-term political approach risks tying the United States to regimes whose people may not support them. When those regimes fall, as many will, ties with the United States will collapse with them.

A less reactive and more positive approach would be consonant with Reagan's determination to reassert American leadership in world affairs. This alternative approach should offer an affirmative program of economic cooperation involving sustained support for economic development in Third World countries. The program should be based on long-term U.S. interests in the Third World: economic, political, strategic, and humanitarian. Pursuit of these interests is fundamental to U.S. national security, not just in its narrow, barbed-wire sense, but in its broadest dimensions.

Economic stakes. The Third World is a fast-growing market for U.S. exports. In 1979 \$63 billion—35 per cent of total U.S. exports—went to developing countries. This amount includes \$45 billion in manufactured products—more than 39 per cent of total U.S. manufactured exports. In 1979 the United States sold to developing countries 45 per cent of its cotton exports, 50 per cent of its wheat exports, and 74 per cent of its rice exports.

To a growing extent, the United States relies on developing countries for vital materials. For example, the United States imports 96 per cent of its cobalt, 87 per cent of its tin, 86 per cent of its bauxite used for aluminum, and all its natural rubber supplies from developing countries. Most important, 41 per cent of the petroleum Americans use comes from developing countries, and about half that amount from nations outside the Middle East. At the end of 1979, U.S. firms had invested close to \$48 billion in developing countries, nearly one quarter of total U.S. foreign direct investment.

Political and strategic interests. The U.S. need to obtain or maintain base, transit,

and overflight rights varies significantly from country to country and region to region. Those rights are enormously important to U.S. security in much of the Third World, particularly in the Middle East. The United States also has a stake in controlling international terrorism and nuclear proliferation. Only the cooperation of all countries, including those of the Third World, can resolve these problems.

More fundamental, the United States seeks a world at peace in which each nation honors the national sovereignty of other countries and respects the human rights of its own citizens. Turmoil in Third World countries—likely to increase as nations try to adjust to the high cost of energy and slowed growth in the West—invites outside interference and increases chances of international armed conflict and pressures for direct U.S. involvement.

Humanitarian concerns. America's moral values are tested by its response to acute hunger and deprivation. Assisting Third World efforts to eliminate extreme poverty demonstrates U.S. leadership in the world.

Against this background of U.S. national interests, the diversity of the Third World presents a complex set of challenges for American policy makers. The economic challenges posed by newly industrial nations such as Brazil and South Korea differ from those presented by the oil-rich, and both sets of problems are distinct from those raised by strategically important nations such as Turkey and Egypt. Moreover, America's interests in all three groups of countries are distinct from U.S. interests in poor and politically volatile Third World nations. Among the last grouping, the United States has special interests—based on history as well as geography—in Central America and the Caribbean.

Supporting Third World Development

American domestic politics and world events dictate that specific foreign policy priorities shift from time to time and from administration to administration. But only by identifying broad foreign policy objectives that will best further U.S. interests can policy makers set sensible priorities. The analysis of U.S. interests outlined above requires that a central ob-

jective of U.S. policy toward the Third World be to encourage Third World economic growth, openness to international trade and investment, and an orientation toward cooperation with the United States on global problems of common concern. This objective ought to shape the general foreign policy of any administration within which specific country priorities are set. In turn, achieving this objective demands consistent and coherent long-term U.S. support for Third World development: improving the standard of living through increased production of goods and services and equitable distribution of the benefits.

Development is the underlying requirement for the continued expansion of U.S. exports and investment in the Third World and offers a primary possibility for increasing significantly the world's supply of energy and food. If an affirmative U.S. development policy is stifled by East-West myopia, governments that allow U.S. bases or accept U.S. military aid risk being branded as American stooges. Only if developing countries perceive an American willingness to cooperate on the issue of their primary concern—their development—can the United States expect cooperation on its political, security, and economic concerns. Hunger, rapid population growth, extreme environmental degradation, and rising debts have reached crisis proportions in many Third World countries. The United States alone cannot solve these problems. But the quality and strength of U.S. leadership will have a major bearing on the pace and direction of Third World development.

What are the needs of developing nations to which the United States should respond as a means of furthering American leadership and interests? At his confirmation hearings, Haig said: "If one thing has become abundantly clear in the last decade or so, it is that the commonality of condition, purpose—and, by extension, U.S. foreign policy—implied by the term 'Third World' is a myth and a dangerous one at that." It is true that the economic problems facing Third World countries vary enormously—hardly surprising when in 1980 per capita gross national product ranged from \$90 in Bangladesh to \$1,510 in Brazil.

The risks are no less real, however, in ignoring the commonalties and, even more important, the deep sense of unity among those countries, which results from their common need to develop economically. The coincidence of dramatic oil price rises, sharp increases in the cost of imported manufactured goods, expanded interest payments on rapidly accumulating debts, and slower growth in exports to the industrial economies have exacerbated their shared problems. The net oil bill of developing countries exceeded \$60 billion in 1980 and is expected to double by 1990. Their combined current account deficit was \$80 billion in 1980 and is predicted to exceed \$95 billion in 1981. Some developing nations have financed their deficits through exceptionally large increases in borrowing. As a result, the public and publicly guaranteed external debt of 92 non-oil-producing developing countries rose from \$72 billion in 1973 to \$225 billion in 1979.

Economic cooperation with the Third World is fundamental to U.S. national security . . . in its broadest dimensions.

In the face of these problems, Third World nations at every level of development must adjust their economies. In the 1960s and 1970s, many developing countries sought short-term balance of payments financing in difficult years. Now they need to adjust to major structural changes in the global economy. These adjustments must be substantial in order to sustain even moderate rates of growth without incurring serious payments imbalances or unmanageable external debts. Although needs will vary from country to country, greater self-sufficiency in energy and food, sensible import substitution, and promotion of exports have become essential. The process of redirecting investment, consumption, and trade will be long and politically difficult. If developing countries are to succeed, they must have continued access to the markets of the industrial nations, extended adjustment financing, and, most important, increased investment in food and energy sectors.

Major increases in food and agriculture production are required, particularly in South Asia and sub-Saharan Africa, to stem growing dependence on food imports and to help raise incomes of the poor. With assistance, substantial progress is achievable. Over the next five years, countries such as Cameroon, Kenya, Nicaragua, Pakistan, Zambia, and Zimbabwe should be able to become self-sufficient in grains. Others, such as Bangladesh, where complete self-sufficiency by mid-decade is less likely, can nevertheless substantially reduce their dependence on imports.

Increased food production in the Third World directly benefits the United States. America, which provides 40 per cent of the world's wheat exports, is by far the largest grain exporter. But the United States cannot continue to meet the bulk of growing world food demands without itself experiencing sharp increases in the costs of food as well as disruptive price fluctuations as an ever larger share of U.S. farm output is traded internationally.

Similarly, the development of new Third World energy resources and better management of existing ones could expand oil supplies available from countries not belonging to the Organization of Petroleum Exporting Countries (OPEC) and stem the increase of costly oil imports by developing countries. Such expansion would slow the rise in the costs of importing oil for all nations, including the United States. Oil and gas production in oil-importing Third World countries could increase from the current 2.6 million barrels a day (MMB/D) to 5.9 MMB/D or more by 1990, according to the World Bank (International Bank for Reconstruction and Development). The necessary investments are economic at current prices. An accelerated exploration program begun in the next few years would lead to even greater production in the 1990s. Coal, now used largely in India and China, could substitute for about 2.1 MMB/D by 1990; American coal could be used and thereby increase U.S. exports. Moreover, improved energy efficiency could save as much as 2.3 MMB/D. There are also sound prospects for expanded application of renewable energy technologies of many kinds, especially in rural areas. The potential for increased hydropower

is great; only 10 per cent of feasible potential has been exploited. Systematic reforestation can reverse the too rapid decline in the availability of wood used for fuel.

Depending on the speed at which such efforts take place, by 1990 demand for imported oil by developing countries could grow by 3 MMB/D or fall by as much as 2.5 MMB/D. This swing of 5.5 million barrels daily will have a significant bearing on world energy security. Much smaller swings in the volatile spot market have led to explosive increases in the general price level for oil. The size of the developing countries' oil bills will also affect their abilities to manage their sharply increased international debt, \$60 billion of which is owed to U.S. banks.

Limiting population growth is a critical companion issue because of the long-term pressures of high birth rates on the world's resources, particularly food and energy. Only one-third of the couples in developing countries, excluding China, have reasonable access to family planning services. This figure can be doubled over the next decade if donor countries, which now allocate only 2 per cent of their total aid for population programs, and developing countries alike make the effort. Resources devoted annually to population control—now only \$1 billion, including \$450 million in donor assistance—would have to double by 1985. If family planning practice then doubled by 1990, the developing countries would have only 3.3 billion people by the year 2000 instead of 3.8 billion. By 2020, the Third World population would reach 4.1 billion instead of 5.1 billion.

The United States can make important contributions to the solution of these and other key development problems, but only through coordination of policies, programs, and resource transfers. For middle-income countries, much can be done through trade and investment policies without large expenditures of public funds. Scientific-technological cooperation is a key area in which Third World development can be promoted by the United States without significant costs. But for poorer nations, increased development assistance on concessional terms is also needed. U.S. leadership in dealing with Third World nations cannot be achieved

without reversing the downward trend of aid over the past decade. U.S. development assistance in real terms dropped from \$5.5 billion in 1970 to approximately \$5.1 billion in 1980. The United States now ranks 15 out of 17 among developed countries in terms of official development assistance as a per cent of gross national product (GNP).

A program is needed that encourages developing countries to commit themselves to equitable and sustainable growth, increased openness to international trade and investment, and cooperation on the foreign policy issues of importance to the United States. Five key areas need particular attention: private investment, trade, scientific cooperation, international financial support, and levels of U.S. aid.

Promoting Private Investment

The U.S. government should actively encourage greater American private sector involvement in Third World development. New measures are needed to expand U.S. private investment in developing countries and to enhance activities by American businesses that increase the development benefits of their investments.

Much of the controversy surrounding foreign investment in developing countries had subsided by the end of the 1970s. Many developing countries indicate they want more, not less, U.S. investment. These countries have become increasingly sophisticated in designing policies to channel multinational corporate resources into areas where they are most wanted and in obtaining the most out of what multinational corporations have to offer. Similarly, American corporations have discovered new arrangements for doing business in developing countries consistent with the national aspirations of those countries. But the full potential of U.S. private sector involvement in promoting development to the benefit of investors, host, and home country is far from achieved. In the past decade, U.S. investment in developing countries, excluding the petroleum sector, grew at an annual rate of 29 per cent compared with a rate of only 16 per cent in developed countries. But developing countries still account for only one quarter of total U.S. foreign

direct investment, and 10 developing countries attracted 70 per cent of the share.

U.S. private investment in Third World petroleum, mining, and smelting—areas of vital interest to the United States—lagged behind such investment in developed countries in the 1970s. Despite the resource potential of the developing world, U.S. investment in developing country petroleum activities increased only \$587 million from 1970 to 1980; in developed countries it increased \$20 billion. In Third World mining and smelting, U.S. investment grew by \$300 million; in developed countries' operations it grew by nearly \$1.5 billion.

By almost any measure, the Third World remains underexplored and its resources underdeveloped. Although 40 per cent of the world's prospective oil-bearing terrain is in non-OPEC developing countries, their share of proven oil reserves in 1980 was only 11.5 per cent of the world total. As of January 1978, the density of drilling in the United States was more than 100 times as great per square mile of potential oil-bearing terrain as in the non-OPEC developing countries, and nearly 800 times as great as in Africa. In mining, a recent survey of U.S. and Canadian mining companies indicates that 80 per cent of their exploration expenditures have been in developed countries, despite economically accessible ore in the developing world.

A number of existing U.S. programs affect U.S. business in Third World countries, but few of those programs have a strong development focus. The Export-Import Bank provides export financing, credit guarantees, and insurance, but not with a view to promoting development. Bank activities in 1980 totaled \$4.4 billion in loans, about half of which went to developing countries, and \$8 billion in guarantees and insurance.

The Overseas Private Investment Corporation (OPIC) primarily provides political risk insurance, loans, and loan guarantees to U.S. investors. It has put special emphasis on energy-related investments in recent years, but it still has an ambiguous commitment to development as an objective. In 1980 OPIC insured 94 projects and made commitments to finance 18 projects in 39 countries. Its insurance cover-

age totaled \$1.1 billion; its loan and guaranty commitments amounted to \$184 million.

The new Trade and Development Program (TDP) funds project identification efforts, feasibility studies, and reimbursable technical assistance. The focus of this program is on encouraging U.S. exports and investment abroad as well as on supporting development. In 1981 TDP was involved in 58 projects in 26 countries. Its proposed 1982 budget is \$7 million.

Finally, through the housing guarantee program of the Agency for International Development (AID), U.S. private lenders provide long-term loans—\$174 million in 1980—for low-cost housing in developing countries. Like TDP, this program remains small.

Expansion of these bilateral investment-promotion programs could occur at little cost in terms of budgetary outlays, for they are essentially self-sustaining over time. The Carter administration was reluctant, however, to support expansion, in part because of the difficulty of proving that a company would not have made a particular investment without a government guarantee. In addition, the administration did not want to risk heightened hostility to private foreign investment in some developing countries. In a speech explaining the Carter administration's approach, Richard N. Cooper, under secretary of state for economic affairs, stated that the United States "should maintain policies that do not bias the corporate decision-making process between foreign and domestic investment one way or another."

More assertive efforts to promote both development and private U.S. investments would affirm U.S. support for greater private sector involvement in the development of interested Third World countries. The support would not bias corporate decision making. Rather, it would help correct the current conditions that make it difficult for those countries to attract private investment. In a campaign speech in October 1980, Reagan specifically recognized the importance of that investment, particularly in Africa.

To achieve this aim, an active informational effort should be launched to identify opportunities that would have a high development impact and to help host countries interest U.S.

private investors. For example, technical assistance in designing national investment policies could help attract investment and direct it for host-country needs.

The U.S. government should establish a business advisory council to exchange views with officials on the scope and direction of U.S. development policies and to consider innovative ways of promoting greater American private sector participation in development. The U.S. bilateral economic assistance program in developing countries should also help design and fund activities that involve both local and U.S. businesses, e.g., training and research programs. While strengthening its assistance programs, the United States should signal its intention to negotiate, for the first time, bilateral investment treaties with interested developing countries. The purpose of these treaties would be to improve the investment climate by providing a floor of legal rights for foreign investors. The primary U.S. objective of the treaties would not be to promote development; nonetheless, an improvement in the investment climate combined with investment assistance for interested developing countries could contribute substantially to development. Moreover, the United States should continue to review its tax laws and follow closely recent reforms in those laws in order to enact, if necessary, further reforms that can encourage foreign investment.

Expanding Trade

The United States should also take affirmative actions to strengthen trade ties with developing countries.¹ Over the past decade, developing countries as a group have become a fast-growing market for U.S. exports, far outpacing developed countries, and developing countries have made impressive gains in the growth of their exports to the United States. From 1970 to 1979, their exports of non-petroleum products to the United States jumped from \$8.5 billion to \$42 billion, an average annual rate of growth of 19.5 per cent. Manufactured exports alone from developing

¹*This section draws heavily on Henry Bergboef, "Recent Developments in U.S. Trade Policy Affecting Developing Countries" (1981).*

countries increased from \$3.5 billion to \$26.4 billion. Barriers to developing country exports have been reduced, most recently through implementation of the U.S. Generalized System of Preferences (GSP), which allows many manufactured and agricultural products from developing countries to enter the U.S. market duty free, and as a result of agreements reached in the recently concluded Tokyo Round of Multilateral Trade Negotiations.

Yet substantial trade barriers remain. Though GSP has improved the developing countries' access to U.S. markets, the exclusion of a number of exports important to eligible countries has seriously limited its liberalizing effect. Some products, including footwear, textiles, and apparel, are legally excluded from GSP. Others are barred if the president determines that they are import sensitive. The effect of GSP is also limited by competitive need criteria, which render a specific product from a country ineligible for GSP treatment if in any year the country's exports exceed \$25 million (in 1974 dollars) or if the country accounts for more than 50 per cent of U.S. imports of the product.

Agreements made in the Tokyo negotiations provide some expanded trade opportunities for developing countries, but the Third World is resentful about things not done. As a result of the Tokyo round, the major industrialized countries will reduce their tariffs by an average of 25 per cent on a range of items exported by developing nations. New codes on subsidies, government procurement, standards, import licensing, and customs valuation will provide a more open and stable trading environment for all nations. Furthermore, the Tokyo round establishes a permanent legal basis for special, more favorable treatment of developing countries. The average tariff cuts affecting those countries, however, were less than those affecting products of industrial countries. In the case of the United States, the average tariff on developing countries' dutiable industrial products is almost twice as high as the average tariff on products from the European Community and Japan, and more than three times as high as on those from Canada.

This gap is largely because of the greater

percentage of industrial imports from developing countries that were excluded from any tariff cuts in the Tokyo round, the extraordinarily high tariffs that the United States will continue to maintain on textiles and apparel, and the relatively high duties remaining in a few other industrial sectors in which developing countries predominate. Moreover, agricultural products from developing countries that compete with U.S. products carry relatively high duties—exceeding, on average, the duties applied to agricultural imports from industrial countries. Attention to these products in the Tokyo round was minimal.

The Third World is resentful about things not done . . . [in] the Tokyo round.

In the area of textiles and apparel, the developing countries' single largest manufactured export, the trend has been to toughen import restrictions in recent years. Almost all of the trade in these items with Third World countries is governed by the multifiber arrangement (MFA). Under the MFA, the United States currently maintains restrictive bilateral agreements with 23 textile and apparel suppliers, all of them developing countries except Japan. Four of these agreements were entered into since the beginning of 1978. Virtually all others have been renegotiated over the past three years to restrict imports even further. When multilateral textile arrangements were first negotiated in the early 1960s, they were to provide for orderly growth in world textile and apparel trade. But with U.S. industry and labor pressuring for even more restrictive agreements, the government has done little to insure that the domestic industry will make real adjustments.

In the context of continued slow growth in the United States and in other industrial countries, prospects do not appear good for any new U.S. trade initiatives, unless the executive branch provides a major push. A program for economic cooperation should confront this problem.

The United States should take the lead in seeking quick agreement on a global trade

pledge that would commit both developed and developing countries, in accordance with their levels of development, to restrain protectionist pressures. Furthermore, the United States should intensify efforts to achieve an agreement on a safeguards code aimed at strengthening international discipline over import restrictions. It should press to insure that the codes negotiated in Tokyo are effectively implemented and that the new dispute settlement and surveillance mechanisms function effectively. Inasmuch as various provisions of the new codes involve considerable ambiguity, the United States should urge interpretations that favor developing countries whenever possible.

In addition, the executive branch should request new authority from Congress to enable the executive branch to engage in bilateral tariff negotiations with individual developing countries after 1981, when the current limited authority expires. These talks will have to be real negotiations, with concessions made by both sides, if progress is to be made in further reducing U.S. trade barriers to developing country exports. Most products on which the United States maintains high tariffs are sensitive ones in labor-intensive and unionized industries. Currently, the bulk of U.S. imports of these products comes from the more advanced developing countries. Many of these countries themselves maintain high barriers to trade that now can be eliminated without unduly compromising their ability to manage their own economies. Indeed, some of these countries, such as South Korea, are moving toward more open trade policies as they reach the limits of import substitution and see the benefits of increased domestic competition and an open international trading system.

Finally, the United States should commit itself to renewal of both its GSP, which expires in 1985, and the MFA, which is currently under renegotiation. The United States should also expand the product coverage of its GSP and lift the competitive need ceiling on exports from the poorest countries while gradually phasing out some of the most advanced developing countries from the list of GSP-eligible countries. In the negotiations on a renewal of the MFA, the United States should recommit itself

to the trade liberalizing spirit of the original MFA and press other industrial countries to do the same. In that context, the United States should accept more liberal provisions for low-income suppliers.

Two premises underlie this set of trade recommendations. The United States should commit itself to further trade liberalization as part and parcel of renewed growth, and it should demand in return that as Third World countries develop, their own commitment to an open trading system will also grow.

Science and Technology

The United States should increase its efforts to provide scientific and technological assistance to the Third World countries. Science and technology will make significant contributions to future productivity gains and growth in the United States; they can and should do the same in the Third World. Cooperation in this area could, in particular, enhance U.S. relations with those more advanced developing countries, such as Brazil, that no longer need bilateral concessional assistance but are important to the United States for economic or strategic reasons.

Long-term, high-level academic and technical training programs in U.S. institutions are among the most effective means the United States has to influence future foreign leaders and the development process. Moreover, by expanding educational opportunities in this country for Third World students, the United States would take advantage of the considerable underutilized capacity that will result from the 25 per cent decline in American 18-year-olds by the end of the decade. One way to do this is to develop a much larger and more active foreign scholarship program. The United States used to make a major financial commitment in this area, and the benefits were enormous. Many of the current leaders in Indonesia, for example, were trained in the United States under government-sponsored programs. In the 1970s, however, such programs stagnated.

Currently, U.S.-sponsored training is based primarily on academic merit, focuses on graduate and postgraduate academic studies, and

runs for short periods (one month or so for the majority to two years at most). The two most important programs that bring students to the United States—AID's participating training program and academic exchanges sponsored by the International Communications Agency (ICA)—did not grow at all in the 1970s, despite the fact that the number of countries involved increased from 69 to 98. In fact, the number of people supported by AID's program dropped from 7,278 in 1976 to 6,065 in 1980. Students involved in ICA exchanges declined from 1,086 in 1970 to 1,032 in 1979. The Carter budget for 1982 would have allowed for a 20 per cent increase in ICA exchanges; this proposed increase was axed in the Reagan budget revisions.

The U.S. approach contrasts sharply with that of the Soviet Union. The Soviets view academic and technical programs as an important, low-cost facet of their relations with developing countries. Students from Third World countries are included at undergraduate levels; the program is designed to meet the needs of those countries for skilled technicians and involves, generally, long periods of study (four to six years is normal). The Soviet program has been growing steadily. In 1970 about 12,500 students from developing countries were trained in the Soviet Union. By 1978 this figure had more than doubled.

Nowhere is the comparison between the two efforts more striking than in Central America and the Caribbean. U.S. programs provide about two-thirds as many places as are available in the USSR and Eastern Europe. When the large Cuban effort is added, the comparison becomes overwhelmingly disproportionate. U.S. programs also are of shorter duration and scattered in coverage; many countries receive little attention and some, none at all. U.S. efforts, moreover, exclude younger, less affluent students, a group which the Soviets and their allies carefully cultivate.

Strengthening Multilateral Institutions

The United States should reaffirm its support for the key international financial institutions, including expansion of their lending programs. Among the U.N. development agencies, the United Nations Development

Programme and the United Nations Children's Fund also deserve particular support. U.S. support for all these institutions is important not only in and of itself, but also in mobilizing the resources of other countries, including the rich oil nations.

In the last several years, the United States has supported measures to expand the financing activities of the International Monetary Fund (IMF), including the establishment of a \$10 billion supplementary financing facility (SFF). The United States also endorsed the concept of establishing a subsidy account to reduce interest payments on SFF borrowings by low-income countries. In addition, the United States has approved changes in IMF policies that greatly expand member countries' access to IMF resources and extend the period of adjustment and repayment associated with IMF financing. These measures should encourage developing countries to undertake necessary adjustments before their economic problems reach crisis proportions. As a result, the likelihood of severe political and economic disruptions should be substantially lessened.

The United States, however, has opposed giving special attention to development needs in the operations of the IMF. The U.S. position has been that the IMF is not a development institution. The position is correct in the sense that the IMF ought not to be providing medium- to long-term development financing. Nevertheless, the United States should support a number of proposed reforms that would make the IMF more responsive to the economic problems of developing countries. Three are of particular importance.

First, the United States should support an agreement to fund adequately a subsidy account to help low-income countries reduce their interest payments not only on drawings from the existing SFF, but also on other funds derived from future IMF market borrowing. The funding could come from profits from the sale of remaining IMF gold or from direct government contributions.

Second, to insure adequate levels of funding under the IMF's revised conditionality guidelines, the United States should endorse the fund's entry into new borrowing arrangements

or IMF borrowing from private capital markets.

Third, Washington should support an expanded role for Special Drawing Rights (SDRs) and a change in the formula for distributing SDRs favorable to low-income countries. The IMF now distributes new SDRs on the basis of members' voting quotas. This allotment system generally provides the most new liquidity to those members that need it least. Although the total amount of new liquidity to be created should be based on the liquidity needs of the system as a whole, a new distribution formula, more favorable to developing countries, should be established.

Of equal, if not greater, importance to developing countries is the future of U.S. support for the multilateral development banks (MDBs), including the World Bank and the three regional development banks in Africa, Asia, and Latin America. The MDBs today are the largest source of official development capital and are major sources of development expertise. In 1980 the four MDBs loaned \$15 billion to developing countries. Of this amount, \$12.5 billion came from the World Bank.

Initial statements by the Reagan administration cast substantial doubt on continued strong U.S. support for the MDBs. These statements, echoed by some members of Congress, are based on judgments that MDB loans do not reflect U.S. political and security interests in the Third World; that the MDBs support radical regimes that follow anti-Western economic policies; that loans from the MDBs promote development of large public sectors and public sector enterprises at the expense of private sector development; and that MDB lending competes with, rather than acts as a catalyst for, private investment and private lending.

These judgments are wrong on the particular points at issue. More important, they seriously underestimate both the value of U.S. participation in the MDBs and the adverse consequences of a reduction in U.S. support.

It is true that U.S. contributions to the multilateral development banks are not responsive to short-term maneuvering for U.S. diplomatic advantage. They do not reward, for example, a country for voting with the United States on an issue before the U.N. Security Council. The

history of the past two decades demonstrates, however, that any attempt to use foreign aid to buy allies on issues of immediate concern will ultimately fail. Even if a country's friendship is for sale in the short run, it will be enormously expensive. The costs of shoring up even a single nation's economy can be staggering.

Any attempt to use foreign aid to buy allies on issues of immediate concern will ultimately fail.

U.S. contributions to the multilateral development banks do support American interests, although not always in immediate terms. Almost all the biggest borrowers of MDB funds are key developing countries from a U.S. foreign policy perspective. Some are important as major markets for U.S. goods and services; others are strategically important. Most have expanding private sectors and, increasingly, open trade and investment policies. The major role of all the MDBs has been to finance the infrastructure development—roads, dams, ports, and electrification—that is essential to private enterprise.

In addition, the MDBs have an important role in increasing the productivity of the many millions of farmers in Third World countries and developing the human skills needed by a productive management and labor force. In making loans for economic development purposes, the MDBs follow policies and procedures designed to promote growing, open economies.

The funds that the MDBs provide to these countries are obtained with a relatively small direct U.S. budget expenditure. The World Bank has total outstanding loan commitments of \$51.5 billion. Of that amount, the United States provided only \$703 million. The rest came from other donors and from direct borrowings in the world capital markets. Although the leverage of other MDBs is not as dramatic, it is substantial.

A reduction in U.S. support for the MDBs would have serious effects not only on developing countries but also on American exports, American banks, and U.S. relations with the Western allies. Developing countries face increasing oil import bills, sluggishness in their

traditional export markets, and high levels of indebtedness made worse by high interest rates. Without MDB assistance, their ability to import U.S. goods will suffer further. U.S. banks have more than \$60 billion outstanding in loans to the Third World. All of the Western allies also have important economic ties with developing countries. They are more dependent than the United States on exports to Third World countries and on oil and other raw materials imported from those countries.

In 1979 and 1980, the United States supported a new World Bank structural adjustment lending program and, with other developed countries, asked the World Bank to consider ways of expanding and making more effective the funding of energy development in Third World countries. If the World Bank is to finance these new endeavors as well as meet the loan requests of one of its newest members, China, the bank will need additional funds well beyond those that can be raised by its 1980 general capital increase. One possible solution worth serious consideration would be to raise the bank's borrowing-to-capitalization ratio from 1:1 to 2:1, as urged in the Brandt Commission report. The bank's borrowing, and thus lending, capacity could be doubled over time, without requiring increased legislative appropriations.

The United States, however, is now in arrears in meeting its agreed contributions to the current replenishments and capital increases to the World Bank and to the three regional development banks. This failure to meet negotiated commitments has damaged the leadership position of the United States in world affairs and put a damper on the kind of international development cooperation called for by present world conditions. If the United States is to reassert its leadership in the development field, it must not only meet its resource commitments to the multilateral financing institutions, but it must also accept greater participation by developing countries in international economic decision making.

Many analysts now doubt the ability and willingness of the private commercial banks to handle fully the recycling of OPEC oil revenues. One alternative is for oil-exporting countries to

put more of their financial surpluses into the international financial institutions. Their willingness to do this depends, in large part, on their obtaining a corresponding increase in decision-making power in the institutions.

A relatively new international organization, the International Fund for Agricultural Development (IFAD), suggests a possible approach. IFAD, inaugurated in 1977, is designed to provide loans and grants for agricultural development in the poorest Third World countries. IFAD has three categories of members: developed nations, OPEC countries, and non-oil-producing developing countries. Each of the three groups has an equal share of votes.

The United States should make these efforts to strengthen the international financial institutions, but only if developing countries will share responsibility for the effective functioning of these mainstays of international economic cooperation. Thus, oil exporting countries with large capital surpluses should provide increased development financing; oil-importing developing countries should offer progress on issues of mutual concern, including energy, food production, and population control; and the more advanced developing countries should agree to a phased transition out of the ranks of aid recipient.

Reversing a Downward Slide

Finally, the United States should pledge to increase its concessional assistance for developing countries in direct proportion to GNP growth. As the U.S. economy grows, U.S. aid would grow accordingly. The downward trend of aid levels in the 1970s would be broken. By promising that a share of American economic growth would be used to promote growth in developing countries, the United States would acknowledge increasing interdependence with developing countries. How might this work?

Even under the most unfavorable estimates, the U.S. GNP is projected to grow by at least 2 per cent annually over the next four years. Developing countries should receive through U.S. foreign economic assistance the same 2 per cent share of GNP increases averaged over the preceding three years. The 1983 increase would, therefore, be 2 per cent of the average

of GNP increases in 1980, 1981, and 1982. Using this formula and conservative estimates of 2 per cent annual GNP growth between 1982 and 1985, the foreign assistance budget would rise from about \$8.6 billion in 1982 to \$14.4 billion in 1985 at current prices. This change would represent an increase from 0.28 per cent of U.S. GNP in 1982 to 0.35 per cent in 1985. If, however, GNP growth averages 3.5 per cent a year, then the 1985 foreign assistance budget would rise to \$16.7 billion in current prices.

The United States could use at least some of the additional money to assist key low-income countries in the identification and design of projects to be financed by the private sector or by the MDBs. The United States would be able not only to concentrate additional resources on the poorest countries of special importance to it, but also use its bilateral assistance to help those countries obtain the far greater resources of the MDBs and private investors. In any event, the U.S. bilateral aid program should continue the pattern adopted in 1979 of increasing concentration on the developing countries where the need is most severe, the potential for effective development is greatest, and development is most directly in U.S. interests.

This proposed program for economic cooperation constitutes a basic core of actions that the United States should undertake in Third World countries to promote U.S. interests and leadership. It would associate the United States with processes of economic development that enjoy the support of Third World people and, in turn, enhance their interests in strong, stable, and mutually beneficial relations with the United States. Few of the recommendations would involve large increases in government expenditures. All would undoubtedly run up against some domestic opposition; but all parts of the program would also have domestic constituents. Opinion polls indicate broad public support for an assertion of constructive U.S. leadership in the world, and Reagan has said he accepts the challenge. The program outlined here is essential to that task.